

Simpsons-Sears Limited Annual Report 1977



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Edition française du rapport annuel.

On peut se procurer l'édition française de ce rapport en écrivant au Vice-président, Finances. Simpsons-Sears Limitée, 222 Jarvis Street, Toronto, Ontario, Canada M5B 2B8

Sears

Simpsons-Sears Limited

Head Office,
222 Jarvis Street,
Toronto, Ontario, Canada
M5B 2B8

Transfer Agent and Registrar

The Royal Trust Company,
Toronto, Ontario;
Montreal, P.Q.;
Calgary, Alberta

Directors and Officers

Directors

Jack C. Barrow
Thomas J. Bell
G. Allan Burton
James W. Button
John F. Gallagher
Charles L. Gundy
Jack F. Kincannon
Gordon M. Metcalf
Douglas J. Peacher
Charles B. Stewart
John D. Taylor
James M. Tory
William P. Wilder
Arthur M. Wood

Crowdus Baker (HONORARY DIRECTOR)

Officers

Jack C. Barrow	CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
John D. Taylor	PRESIDENT
C. Lester Bishop	VICE-PRESIDENT, FINANCE
Alex Campbell	VICE-PRESIDENT, OPERATING
David S. Chapman	VICE-PRESIDENT, MERCHANDISE DISTRIBUTION
Norman S. Cuthbert	VICE-PRESIDENT, PUBLIC RELATIONS
Frank R. Hammond	VICE-PRESIDENT, RETAIL
H. Alexander King	VICE-PRESIDENT, PERSONNEL
Joseph R. O'Kell	VICE-PRESIDENT AND SECRETARY
Morgan Reid	VICE-PRESIDENT, PLANNING AND DEVELOPMENT
C. Richard Sharpe	VICE-PRESIDENT, MERCHANDISING
James E. Copland	CORPORATE COMPTROLLER
Larry E. Ginther	TREASURER
J. J. Michael Eagan	ASSISTANT SECRETARY

Catalogue Centres • Catalogue Sales Offices • Retail Stores

Catalogue Centres

Halifax, Nova Scotia
Toronto, Ontario
Regina, Saskatchewan
Vancouver, British Columbia

819 Catalogue Sales Offices

62 Retail Stores

Barrie, Ontario
Belleville, Ontario
Brantford, Ontario
Burlington, Ontario
Burnaby, British Columbia
Calgary, Alberta
Chinook-Centre
Marlborough
North Hill
Chicoutimi, Quebec
Chilliwack, British Columbia
Dundas, Ontario
Edmonton, Alberta
Bonnie Doon
Kingsway
Meadowlark
Fredericton, New Brunswick
Guelph, Ontario

Hamilton, Ontario
Hull, Quebec
Kamloops, British Columbia
Kelowna, British Columbia
Kingston, Ontario
Kitchener, Ontario
Lethbridge, Alberta
Levis, Quebec
Markham, Ontario
Mississauga, Ontario
Montreal, Quebec
les Galeries d'Anjou
Mail Champlain
Place Vertu
Moncton, New Brunswick
Moose Jaw, Saskatchewan
Nanaimo, British Columbia
Newmarket, Ontario
North Vancouver, British Columbia
Oshawa, Ontario
Ottawa, Ontario
Carlingwood
St. Laurent
Peterborough, Ontario
Prince Albert, Saskatchewan
Prince George, British Columbia

Quebec City, Quebec
Fleur de Lys
Place Laurier
Richmond, British Columbia
Richmond Hill, Ontario
Saint John, New Brunswick
Sarnia, Ontario
Saskatoon, Saskatchewan
Sault Ste. Marie, Ontario
Sherbrooke, Quebec
St. Catharines, Ontario
St. Jerome, Quebec
St. John's, Newfoundland
Sudbury, Ontario
Surrey, British Columbia
Thunder Bay, Ontario
Toronto, Ontario
Trois-Rivières, Quebec
Vancouver, British Columbia
Victoria, British Columbia
Windsor, Ontario
Winnipeg, Manitoba
Garden City
Polo Park



*Marlborough Mall, Calgary
Opened March 2, 1977*

THE
FASHION
PLACE



The Fashion Place . . . an exciting new merchandising concept for Simpsons-Sears, designed to capture a larger share of the women's wear market. This major corporate programme is backed by comprehensive market research, wardrobe-of-the-month presentations, fashion shows and displays, extensive local and national advertising, and special staff training.

The purpose of The Fashion Place programme is to convey to our customers that at Simpsons-Sears they will find a wide selection of the most-wanted styles at very affordable prices . . . that they will be able to coordinate their wardrobes without looking further . . . and that knowledgeable staff can show them how to accessorize their outfits for maximum effect and versatility.

We believe that The Fashion Place is a great shopping concept, because it specializes in meeting the needs of the fashion-conscious contemporary woman—great looks to live in, plus everything-in-one-place convenience.

*When it comes to fashion,
come to Sears!*



Report to Shareholders

Net sales for the fiscal year 1977 were \$2,093,378,000 compared with \$1,890,827,000 in 1976, which amounted to an increase of 10.7%.

Net earnings for the year were \$44,926,000 and represent 2.1% of net sales compared with \$33,174,000 or 1.8% of net sales in 1976. Per share earnings based on the weighted average number of shares outstanding during the year were 60¢ compared with 44¢ last year. The 1977 earnings have been increased by approximately \$5,600,000 or 7¢ per share as a result of the 3% inventory allowance for tax purposes.

As stated in our interim reports, results for the first half of the year were adversely affected by the general softening of retail demand. In the last half of the year, however, with a significant improvement in consumer demand and a strong inventory and expense control program, the results in both sales and profits were much more satisfactory.

Quarterly dividends of 6¢ per share were declared during 1977 for a total of 24¢ per share, which was the same as in 1976.

Simpsons-Sears equity in earnings of associated companies contributed 5¢ per share to the earnings of the Company, compared with 4¢ per

share in 1976. These associated companies are Allstate Insurance Company of Canada, Allstate Life Insurance Company of Canada, Photo Engravers and Electrotypers Limited, Inglis Limited and interests in several shopping centres, in which Simpsons-Sears stores are located.

The Company contributed \$7,962,000 to the employees' Guaranteed Retirement Income Plan. This was in addition to \$5,228,000 paid by the Company to the Canada and Quebec Pension Plans. Comparable contributions in 1976 were \$6,836,000 to the Guaranteed Retirement Income Plan and \$4,714,000 to the Canada and Quebec Pension Plans. In addition, \$2,748,000 was contributed by the Company to the Plan for Sharing Profits to be added to employee deposits for the purchase of Simpsons-Sears Limited Class A shares. The 1976 Company contribution was \$2,282,000.

The total contribution by the Company to these plans amounted to \$15,938,000 compared with \$13,832,000 in 1976.

During the year, \$55,000,000 was added to the working capital of the Company by the Simpsons-Sears Acceptance Company Limited issue of \$30,000,000—9¼% Debentures Series R in March and Simpsons-Sears Limited \$25,000,000—floating rate Debentures Series E in December.

Our orderly expansion program continued in 1977. We opened three new retail stores and 102 catalogue sales offices. The retail stores are located in Calgary, Alberta; Markham in Greater Toronto, Ontario; and St. Jerome, Quebec. At the end of the year, there were 62 retail stores, 819 catalogue sales offices and 4 major catalogue centres in operation. Capital expenditures for the expansion program were \$30,000,000 during the year.

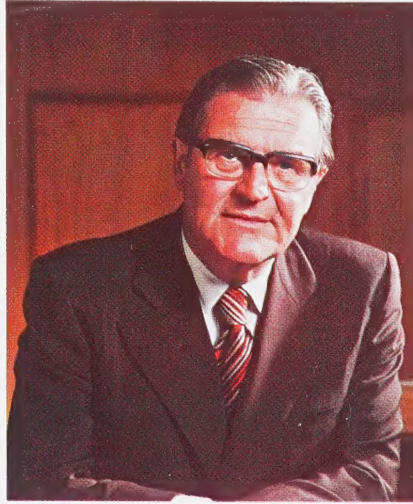
Expansion plans for 1978 include three new retail stores and 70 catalogue sales offices. The retail stores to be opened are at Guelph, Ontario and St. John's, Newfoundland, both of which replace existing smaller stores, and at Red Deer, Alberta. Capital expenditures for the 1978 expansion program are estimated to be \$20,000,000.

When Simpsons-Sears Limited commenced operation on January 8, 1953, the plan was to expand the catalogue business acquired from Simpsons, Limited and to develop retail stores across Canada. As we mark our 25th Anniversary, we are proud of the achievements that have been made in our first 25 years. Sales have grown from \$112,000,000 in 1953 to \$2,093,378,000 in 1977. This growth has been accomplished by the efforts of all of our employees, who have

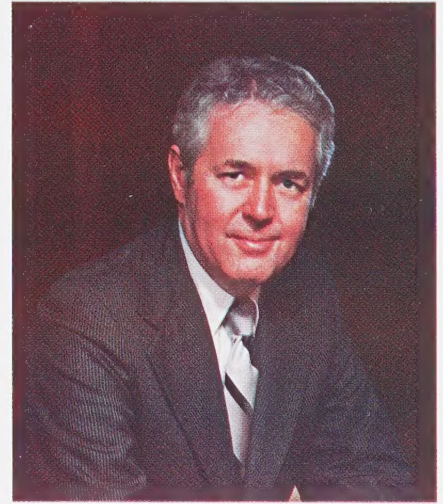
adapted to the challenges over the years with enthusiasm, dedication and a high degree of professionalism. To them and to our many suppliers we express our sincere thanks.

We owe our position, as Canada's largest retailer of general merchandise, to the millions of customers who have supported us through our first 25 years. To them, we express sincere appreciation and renew our pledge to continue to serve them to their satisfaction in the years to come.

While there is continuing uncertainty about the short-term economic outlook, the improvement in consumer confidence evidenced in the third and fourth quarters of 1977 is continuing, and it is anticipated that 1978 will be a year of further improvement in sales and profits for the Company.



Jack C. Barrow CHAIRMAN OF THE BOARD



John D. Taylor PRESIDENT

J. Barrow
CHAIRMAN

J. D. Taylor
PRESIDENT

March 27, 1978

Financial Highlights

	1977	1976
Net sales	\$2,093,378,000	\$1,890,827,000
Net earnings	44,926,000	33,174,000
*Per share60	.44
Dividends declared	18,077,000	18,037,000
Per share24	.24
Shareholders' equity	390,461,000	362,597,000
Per share	5.18	4.82
Municipal realty and business taxes	21,170,000	18,240,000
**Federal and provincial income taxes	27,700,000	26,906,000
Depreciation	28,992,000	26,566,000
Contributions to Simpsons-Sears Plan for Sharing Profits and Company and Government Pension Plans	15,938,000	13,832,000
Expenditures for fixed assets	42,046,000	40,305,000

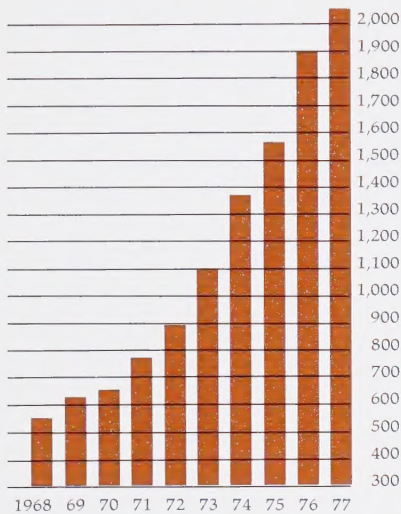
*Based on weighted average number of shares outstanding during the fiscal year.

**After reduction in 1977 of approximately \$5,600,000
as a result of the 3% inventory allowance.

Headquarters
Building,
Toronto

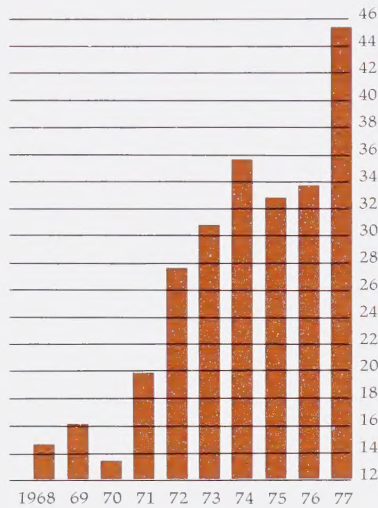


Sales millions of dollars



Consolidated net sales of \$2,093,378,000 in 1977 showed an increase of 10.7% over 1976. The compounded average increase for the ten-year period 1967 to 1977 was 16.1% per year.

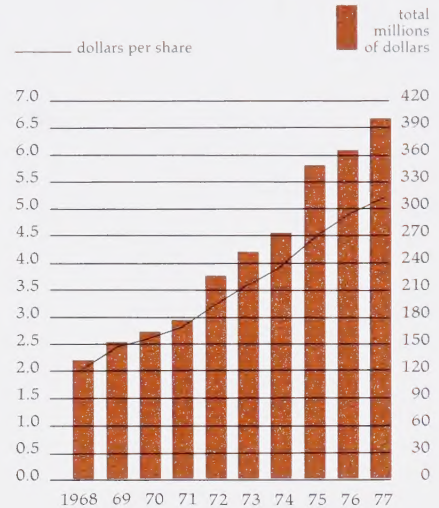
Earnings millions of dollars



Consolidated net earnings, after taxes, which amounted to \$44,926,000 in 1977 showed an increase of 35.4% from 1976. The compounded average increase for the ten years 1967 to 1977 was 13.4% per year.

Earnings per share, based on the weighted average number of shares outstanding during the year, were 60¢ in 1977 compared with 44¢ in 1976 and 22¢ in 1967.

Shareholders' Equity



Total shareholders' equity increased from \$125,466,000 at the end of 1967 to \$390,461,000 at the end of 1977 and shows a compounded average annual growth of 12.0% over the ten-year period. Equity per share which was equivalent to \$2.06 at the end of 1967 increased to \$5.18 at the end of 1977.

Years 1974 and 1968 include 53 weeks



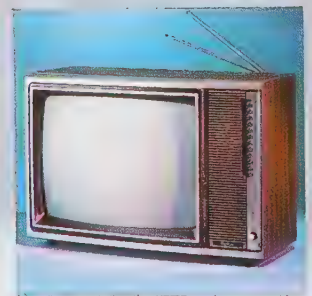
*Sears * Best*



"Sears Best" is an on-going merchandising programme to develop exclusive products of superior quality. Our buyers are meeting the challenge with enthusiasm and ingenuity—the features and benefits of "Sears Best" merchandise make the exceptional quality and value self evident.

"Sears Best" products are developed through extensive research and are most stringently tested to ensure that they meet Simpsons-Sears highest standards of design, workmanship and performance. Our distinctive and definitive "Sears Best" label says it all. It is our symbol of effective merchandising ... and our customers' guarantee of product excellence.

*Simpsons-Sears guarantee:
satisfaction or money refunded*



Consolidated Statements of Earnings and Retained Earnings

	Fiscal year ended	
	January 4, 1978	January 5, 1977
Consolidated Earnings		
Net sales, including service charges on instalment sales . . .	\$2,093,378,000	\$1,890,827,000
Rentals and other income	2,895,000	3,395,000
	2,096,273,000	1,894,222,000
Deduct:		
Cost of merchandise sold and selling, operating and administrative expenses	1,916,152,000	1,738,289,000
Depreciation	28,992,000	26,566,000
Interest on long-term debt (including amortization of discount and expense)	43,995,000	36,919,000
Other interest	17,345,000	17,154,000
Municipal realty and business taxes	21,170,000	18,240,000
	2,027,654,000	1,837,168,000
Earnings from operations before income taxes	68,619,000	57,054,000
Income taxes:		
Current (Note 8)	23,265,000	23,788,000
Deferred	4,435,000	3,118,000
	27,700,000	26,906,000
Earnings from operations	40,919,000	30,148,000
Equity in earnings of associated companies	4,007,000	3,026,000
Net earnings for the fiscal year	\$ 44,926,000	\$ 33,174,000
Net earnings per share	\$.60	\$.44
Consolidated Retained Earnings		
	January 4, 1978	January 5, 1977
Balance at beginning of year	\$ 177,848,000	\$ 162,711,000
Net earnings for the fiscal year	44,926,000	33,174,000
	222,774,000	195,885,000
Dividends declared (24¢ per share)	18,077,000	18,037,000
Balance at end of year	\$ 204,697,000	\$ 177,848,000

Consolidated Statement of Changes in Financial Position

	Fiscal year ended	
	January 4, 1978	January 5, 1977
Source of Working Capital		
Net earnings for the fiscal year	\$ 44,926,000	\$ 33,174,000
Non-cash charges deducted in arriving at net earnings, principally depreciation and deferred income taxes	31,069,000	26,656,000
Equity in earnings of associated companies less dividends received of \$869,000 (1976—\$670,000)	(3,138,000)	(2,356,000)
Working capital from operations	72,857,000	57,474,000
Proceeds from issue of long-term debt	57,950,000	63,440,000
Receipts on sales of capital stock	2,060,000	2,278,000
Decrease in investments and advances	1,591,000	(3,050,000)
Disposal of fixed assets	281,000	2,970,000
	<u>134,739,000</u>	<u>123,112,000</u>
Use of Working Capital		
Expenditures for fixed assets	42,046,000	40,305,000
Retirement of long-term debt	3,698,000	9,683,000
Dividends declared	18,077,000	18,037,000
	<u>63,821,000</u>	<u>68,025,000</u>
Resulting in an increase in working capital of	\$ 70,918,000	\$ 55,087,000
Working capital at end of year	<u>\$557,591,000</u>	<u>\$486,673,000</u>



Markham, Ontario
Opened September 28, 1977

Consolidated Balance Sheet

Assets

Current Assets

	January 4, 1978	January 5, 1977
Cash	\$ 5,909,000	\$ 5,249,000
Accounts receivable (Note 2)	522,612,000	459,690,000
Inventories	402,398,000	381,653,000
Prepaid advertising and other charges	42,340,000	37,904,000
	<u>973,259,000</u>	<u>884,496,000</u>

Investments and Other Assets

Investments and advances (Note 3)	34,416,000	32,869,000
Notes receivable on sales of Class A shares of Simpsons-Sears Limited under the Employees' Stock Purchase Plan	3,582,000	4,627,000
	<u>37,998,000</u>	<u>37,496,000</u>

Fixed Assets, at cost

Land	23,473,000	20,722,000
Buildings and improvements	260,407,000	243,226,000
Equipment and fixtures	157,934,000	146,898,000
	<u>441,814,000</u>	<u>410,846,000</u>
Less accumulated depreciation	118,708,000	100,513,000
	<u>323,106,000</u>	<u>310,333,000</u>

Unamortized Bond and Debenture

Discount and Expense	5,564,000	5,745,000
	<u>\$1,339,927,000</u>	<u>\$1,238,070,000</u>



St. Jerome, Quebec
Opened October 19, 1977

Liabilities

Current Liabilities

	January 4, 1978	January 5, 1977
Bank advances and short-term notes (Note 4)	\$ 183,061,000	\$ 198,106,000
Accounts payable	115,104,000	99,289,000
Accrued liabilities	65,464,000	54,878,000
Income and other taxes	42,132,000	33,210,000
Contribution payable to Simpsons-Sears Plan for Sharing Profits	2,748,000	2,282,000
Principal payments on long-term debt due within one year (Note 5)	2,640,000	5,546,000
Dividend payable March 15, 1978	4,519,000	4,512,000
	<u>415,668,000</u>	<u>397,823,000</u>
Long-Term Debt (Note 5)	512,176,000	457,407,000
Deferred Income Taxes	21,622,000	20,243,000
	<u>949,466,000</u>	<u>875,473,000</u>

Shareholders' Equity

Capital Stock (Note 6)

Authorized shares of no par value—

16,000,000 Class A shares

32,000,000 Class B shares

32,000,000 Class C shares

Issued—

13,701,249 Class A shares

(January 5, 1977—13,586,554) 56,820,000 55,805,000

30,811,000 Class B shares 64,472,000 64,472,000

30,811,000 Class C shares 64,472,000 64,472,000

185,764,000 184,749,000

Retained Earnings 204,697,000 177,848,000

390,461,000 362,597,000

\$1,339,927,000 \$1,238,070,000

APPROVED BY THE BOARD:

J. C. Barrow DIRECTOR

J. D. Taylor DIRECTOR

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation:

The consolidated financial statements include the accounts of Simpsons-Sears Limited and all subsidiaries. Net assets and net earnings attributable to minority interests are not significant and are not separately reported in the consolidated financial statements.

Inventories:

Inventories are valued at the lower of approximate cost and realizable value. Cost is determined for catalogue order inventories on a first-in, first-out or average cost basis applied by individual items, for retail store inventories on a first-in, first-out basis applied by the retail inventory method, and for supplies and miscellaneous inventories on a first-in, first-out or average cost basis applied by individual items.

Investments:

Investments in associated companies are carried at cost plus the equity in undistributed earnings since dates of acquisition. All other investments are carried at cost.

Depreciation, Amortization, Repairs and Maintenance:

Depreciation and amortization provisions are generally computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets. The depreciation rates range from 2% to 2½% for buildings and improvements and from 10% to 25% for equipment and fixtures.

Temporary equipment (short-lived equipment such as wood shelving, stock boxes, display equipment, awnings, shades and certain types of floor coverings) acquired for a retail store on or prior to opening are amortized over a period of five years and, with some exceptions, the costs of other temporary equipment are amortized over a twelve month period.

Expenditures for maintenance and repairs are charged to earnings as incurred and expenditures for major renewals and betterments are capitalized.

The cost and accumulated depreciation in respect of property retired or sold are eliminated from the asset and related depreciation accounts. Profits and losses on such retirements or sales are included in earnings.

Unamortized Bond and Debenture Discount and Expense:

Bond and debenture discount and expense are amortized by the reducing balance method or by the straight-line method, as applicable, to the due dates of the respective bonds and debentures.

Income Taxes:

Income taxes are accounted for on the tax allocation basis which relates income taxes to the accounting income for the year.

Profits on Instalment Sales:

Profits on instalment sales, but not the service charges on such sales, are taken into earnings at the time of sale. The service charges are taken into earnings as earned.

Pensions:

Current service costs under the Company's Guaranteed Retirement Income Plan are charged to operations as they accrue. Prior service costs are charged to operations as they are funded.

Net Earnings per Share:

The calculation of net earnings per share shown on the consolidated statement of earnings is based on the weighted average number of shares outstanding during the fiscal year. The dilutive effect resulting from the assumed conversion of the 4½% Convertible Debentures is not material.

The Companies Act of British Columbia:

The consolidated financial statements do not purport to comply with certain disclosure requirements unique to the Companies Act of British Columbia.

2. ACCOUNTS RECEIVABLE:

	January 4, 1978	January 5, 1977
Customer instalment accounts	\$483,844,000	\$426,008,000
Miscellaneous accounts	53,946,000	48,169,000
	537,790,000	474,177,000
Less allowance for doubtful accounts	15,178,000	14,487,000
	<u>\$522,612,000</u>	<u>\$459,690,000</u>

In accordance with recognized trade practices, customer instalment accounts include amounts which will not become due within one year.

3. INVESTMENTS AND ADVANCES:

	January 4, 1978	January 5, 1977
Associated companies	\$ 24,532,000	\$ 21,394,000
Other, principally real estate advances	9,884,000	11,475,000
	<u>\$ 34,416,000</u>	<u>\$ 32,869,000</u>

The Company's equity in the net assets of the associated companies as shown in their financial statements approximates the carrying value thereof. The investments in associated companies include a 25% share interest in each of Allstate Insurance Company of Canada and Allstate Life Insurance Company of Canada, a 47% share interest in Photo Engravers & Electrotypers Limited and a 20% share interest in Inglis Limited.

4. BANK ADVANCES AND SHORT-TERM NOTES:

Bank advances include demand notes of \$6,000,000 at January 4, 1978 and \$4,470,000 at January 5, 1977 secured by the pledge of Secured Debentures Series A, payable on demand, of Simpsons-Sears Acceptance Company Limited.

The Company has agreed to give its bankers a charge on inventories to secure its short-term bank loans which were outstanding in the amount of \$41,525,000 at January 4, 1978.

5. LONG-TERM DEBT:

	January 4, 1978	January 5, 1977
Simpsons-Sears Limited		
First Mortgage Bonds—		
4½% Series B due April 1, 1979	\$ 849,000	\$ 1,761,000
5½% Series C due August 15, 1985	5,995,000	6,195,000
7¾% Series D due February 15, 1991	25,213,000	25,213,000
8¼% Series E due May 1, 1993	25,000,000	25,000,000
Debentures—		
10¼% Series A due August 15, 1979	15,000,000	15,000,000
11% Series B due August 15, 1994	35,000,000	35,000,000
10% Series C due June 15, 1982	35,000,000	35,000,000
11¼% Series D due June 15, 1995	35,000,000	35,000,000
4½% Convertible due October 15, 1988	9,343,000	10,358,000
Floating rate Series E		
due December 31, 1987	25,000,000	—
10½% Unsecured Notes due May 28, 1979	5,000,000	5,000,000
	<u>216,400,000</u>	<u>193,527,000</u>
Simpsons-Sears Acceptance Company		
Limited Secured Debentures—		
6¾% Series B due February 1, 1980	20,000,000	20,000,000
5½% Series C due February 1, 1980		
(U.S. \$5,000,000)	4,880,000	4,880,000
5¾% Series D due July 1, 1981	15,000,000	15,000,000
5½% Series E due March 1, 1985	10,000,000	10,000,000
6¼% Series F due March 1, 1986	10,000,000	10,000,000
7% Series G due November 1, 1986	12,200,000	12,200,000
7¼% Series H due August 15, 1987	12,400,000	15,000,000
8¾% Series I due June 15, 1989	8,700,000	8,700,000
9½% Series J due February 1, 1990	6,670,000	6,670,000
8¾% Series K due May 15, 1992	25,000,000	25,000,000
9¼% Series L due March 15, 1994	25,000,000	25,000,000
11½% Series M due November 15, 1994	19,565,000	20,210,000
11½% Series N due November 15, 1994	7,225,000	7,650,000
9¾% Series O due August 1, 1983	19,930,000	19,930,000
10¾% Series P due November 15, 1996	35,000,000	35,000,000
10¾% Series Q due November 15, 1988	10,000,000	10,000,000
9¼% Series R due March 15, 1984	30,000,000	—
	<u>271,570,000</u>	<u>245,240,000</u>
Simpsons-Sears Properties Limited		
mortgage and bond indebtedness—		
4% to 6% payable in monthly		
instalments of principal and interest		
and maturing at various dates from		
1985 to 1998, including \$7,233,000		
(U.S. \$6,738,000) at January 4, 1978		
and \$7,639,000 (U.S. \$7,117,000) at		
January 5, 1977 payable in U.S. funds	9,262,000	9,716,000
St. Laurent Shopping Centre Limited—		
8% First Mortgage Sinking Fund		
Bonds due June 1, 1993	14,084,000	14,341,000
10½% General Mortgage Bonds		
Series A due June 1, 1993	3,500,000	—
8% Income Notes due July 1, 1993	—	129,000
	<u>17,584,000</u>	<u>14,470,000</u>
	514,816,000	462,953,000
Less principal payments due within		
one year included in current liabilities	2,640,000	5,546,000
	<u>\$512,176,000</u>	<u>\$457,407,000</u>

The First Mortgage Bonds of Simpsons-Sears Limited, the mortgage and bond indebtedness of Simpsons-Sears Properties Limited, and the First Mortgage Sinking Fund Bonds of St. Laurent Shopping Centre Limited are primarily secured by first charges on the fixed assets of those companies. The 10½% General Mortgage Bonds Series A of St. Laurent Shopping Centre Limited are secured primarily by a second charge on the fixed assets of the company. The Debentures of Simpsons-Sears Limited are secured, subject to the security given on its First Mortgage Bonds, by a floating charge on all the assets of the Company. The Secured Debentures of Simpsons-Sears Acceptance Company Limited are secured by an assignment of the customer instalment accounts receivable referred to in Note 2.

The 4½% Convertible Debentures are convertible at the holder's option at any time up to October 15, 1978 into 113 Class A shares per \$1,000 principal amount of debentures.

The Series E Debentures of the Company, which are redeemable at its option subsequent to December 31, 1982, bear interest for each interest period at a rate equal to the aggregate of the average daily prime lending rate of the Company's two principal bankers for the interest period and ½%.

Subsequent to 1978, principal payments required on long-term debt for the years shown are as follows: 1979—\$25,030,000; 1980—\$33,829,000; 1981—\$26,971,000; 1982—\$47,032,000.

6. CAPITAL STOCK:

During the fiscal year ended January 4, 1978, \$1,015,000 principal amount of 4½% Convertible Debentures were converted into 114,695 Class A shares.

All classes of shares rank equally in all respects except that the Class A shares are non-voting and are entitled to a non-cumulative preferential dividend of 2½¢ per share in any year. After payment of a similar dividend to the holders of the Class B and Class C shares all three classes rank equally as to dividends.

7. COMMITMENTS:

The charge against earnings for the Company's Guaranteed Retirement Income Plan was \$7,962,000 for the year ended January 4, 1978 (1976—\$6,836,000). The unfunded obligation for past service under this plan, estimated by independent actuaries to be approximately \$53,600,000 at January 4, 1978, is to be funded and charged to earnings by annual payments to 1990.

continued on next page

Minimum fixed rentals, exclusive of property taxes, insurance and other expenses payable directly by the Company, under leases having an initial term of more than one year are as follows:

1978—\$25,495,000	1983-1987—\$73,651,000
1979—\$22,363,000	1988-1992—\$64,666,000
1980—\$20,120,000	1993-1997—\$57,726,000
1981—\$18,805,000	1998 and
1982—\$16,873,000	thereafter—\$72,430,000

Total rentals charged to earnings under all leases for the fiscal year ended January 4, 1978 amounted to \$28,849,000 (1976—\$23,724,000).

8. INCOME TAXES:

Current income taxes for the fiscal year ended January 4, 1978 have been reduced by approximately \$5,600,000 as a result of the 3% inventory allowance for income tax purposes.

9. CAPITAL EXPENDITURES:

Capital expenditures for the fiscal year ending January 3, 1979 are estimated at approximately \$42,000,000.

10. ANTI-INFLATION PROGRAM:

The Company and its subsidiaries are subject to, and believe that they have complied with, controls on prices, profits, compensation and dividends under the Federal Government's anti-inflation program.

11. REMUNERATION OF DIRECTORS AND OFFICERS:

For the fiscal year ended January 4, 1978 six directors received remuneration amounting to \$35,000 (1976—\$34,000); the remaining eight directors received no remuneration as directors. The remuneration of fourteen officers (1976—fifteen), two of whom are also directors, amounted to \$1,426,000 (1976—\$1,420,000).

Ten Year Summary

Results for the year (in thousands)	1977	1976	1975	1974 53 Weeks	1973
Net sales	\$2,093,378	\$1,890,827	\$1,548,600	\$1,341,128	\$1,073,467
Depreciation	28,992	26,566	23,795	18,583	14,876
Income taxes	27,700	26,906	28,993	34,620	27,974
Net earnings	44,926	33,174	32,118	34,454	30,275
Dividends declared	18,077	18,037	17,159	14,914	13,516
Expenditures for fixed assets	42,046	40,305	69,664	70,270	35,996
Year-end position (in thousands)					
Inventories	402,398	381,653	279,503	268,738	203,885
Fixed assets (net)	323,106	310,333	298,389	254,106	204,442
Total assets	1,339,927	1,238,070	1,050,597	941,083	775,598
Working capital	557,591	486,673	431,586	343,799	286,154
Long-term debt	512,176	457,407	402,573	342,423	254,073
Shareholders' equity	390,461	362,597	345,066	269,476	248,043
Per share of capital stock (in dollars)					
Net earnings	.60	.44	.47	.51	.45
Dividends declared	.24	.24	.24	.22	.20
Shareholders' equity	5.18	4.82	4.60	3.97	3.67

Auditors' Report

To the Shareholders of Simpsons-Sears Limited:

We have examined the consolidated balance sheet of Simpsons-Sears Limited as at January 4, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 4, 1978 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, March 15, 1978

1972	1971	1970	1969	1968 53 Weeks
\$894,066	\$765,778	\$646,888	\$615,011	\$540,663
12,618	11,313	7,884	6,508	5,170
23,868	19,409	12,637	15,530	15,680
26,659	19,703	12,710	15,837	14,420
7,991	7,562	7,497	7,404	6,130
34,598	29,545	36,380	24,257	19,121
164,142	136,564	114,201	120,167	104,057
183,462	163,962	147,088	106,557	70,733
654,868	564,039	499,528	450,150	378,773
274,565	228,123	202,928	194,035	182,886
246,603	227,225	199,138	163,981	131,061
220,379	175,101	160,531	150,537	135,937
.41	.31	.21	.26	.24
.12	.12	.12	.12	.10
3.31	2.78	2.56	2.44	2.22

Years 1969 to 1972 inclusive are restated for accounting changes applied retroactively in 1973. The effect on the results of prior years, not restated, would not be significant.

